

**Graton Community Services District**

**Basic Financial Statements**

**Year Ended June 30, 2008**

DATE RECEIVED:



AUDIT REVIEW #(s) 04811

Assigned To: Ryan

Date Reviewed: 7/23/09

Reviewer's Initials: JR

Date Review(s) Completed: 7/30/09

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## Independent Auditors' Report

To the Board of Directors  
Graton Community Services District  
Graton, California

We have audited the accompanying basic financial statements of the Graton Community Services District, (the "District"), as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 2 to 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.



Santa Rosa, California  
March 24, 2009

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## **Management's Discussion and Analysis**

As management of the Graton Community Services District (the "District"), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements (pages 8 to 12) and the accompanying notes to the basic financial statements (pages 13 to 23).

### **Reporting Entity**

The District was formed in 2004 by a resolution of the Local Agency Formation Commission of the County of Sonoma, California approving a reorganization consisting of the dissolution of the Graton Sanitation Zone of the Sonoma County Water Agency, formation of the District, and designation of the District as the successor in interest to the Agency, and establishing a sphere of influence for the District.

Please refer to the reporting entity definition within the notes to the basic financial statements for additional detail.

### **Financial Highlights**

#### *Net Assets*

The assets of the District exceeded their liabilities at the close of the most recent fiscal year by \$3,412,355. The District recorded an operating loss of \$(44,466) for fiscal year 2007/08. The District recognized an overall increase in net assets of \$955,152.

#### *Revenues*

The District recognized total operating revenues of \$799,171 during fiscal year 2007/08, which consisted of flat charges of \$787,138 and charges for services of \$12,033.

#### *Expenses*

The District incurred operating expenses totaling \$843,637 during fiscal year 2007/08. This amount represents expenses related to the general administration and operation of the sanitation system.

## Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial report is comprised of three components: 1) Management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements.

### *Management's Discussion and Analysis*

Management's discussion and analysis is intended to provide the narrative overview that users need to interpret the basic financial statements. Management's discussion and analysis also provides analysis of some key data presented in the basic financial statements.

### *Basic Financial Statements*

The District is engaged only in the business type activities of the collection, treatment, or disposal of sewage, waste and storm water of the District and its inhabitants. The District accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The basic financial statements presented are the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

### *Notes to the Basic Financial Statements*

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 to 23.

### *Financial Analysis*

The largest portion of the District's net assets (71%) reflects their investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sanitation services to its customers; consequently, these assets are not available for future spending. Although the District's investment in their capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## Management's Discussion and Analysis

Year Ended June 30, 2008

## Overview of the Basic Financial Statements (continued)

## Financial Analysis (continued)

## Net Assets

	June 30, 2007	June 30, 2008	Percentage Change
Current assets	\$ 732,840	\$ 1,273,221	74 %
Capital assets	3,448,877	5,036,875	46 %
Other assets	1,180,945	-	(100) %
<b>Total Assets</b>	<b>5,362,662</b>	<b>6,310,096</b>	<b>18 %</b>
Current liabilities	296,732	392,513	32 %
Non-current liabilities	2,608,727	2,505,228	(4) %
<b>Total Liabilities</b>	<b>2,905,459</b>	<b>2,897,741</b>	<b>- %</b>
Invested in capital assets net of related debt	2,022,419	2,428,148	20 %
Restricted for debt service	18,960	-	(100) %
Unrestricted	415,824	984,207	137 %
<b>Total Net Assets</b>	<b>\$ 2,457,203</b>	<b>\$ 3,412,355</b>	<b>39 %</b>

The increase in the current assets balance is the result of an increase intergovernmental funds from disaster funding and a state grant of \$510,000.

The increase in the capital assets balance by 46% is primarily due to the continued expenditures related to the construction of the wastewater treatment facility.

The increase in current liabilities is due to the increase in accounts payable, which are related to the ongoing construction of the wastewater treatment facility.

## Changes in Net Assets

	June 30, 2007	June 30, 2008	Percentage Change
Operating revenues			
Flat charges	\$ 613,882	\$ 787,138	28 %
Sanitation services	9,874	12,033	22 %
<b>Total operating revenues</b>	<b>623,756</b>	<b>799,171</b>	<b>28 %</b>

## Management's Discussion and Analysis

Year Ended June 30, 2008

## Overview of the Basic Financial Statements (continued)

## Financial Analysis (continued)

## Changes in Net Assets (continued)

	June 30, 2007	June 30, 2008	Percentage Change
Operating expenses			
Services and supplies	732,228	722,276	(1) %
Depreciation	119,845	121,361	- %
Total operating expenses	852,073	843,637	(1) %
Operating loss	(228,317)	(44,466)	(81) %
Nonoperating revenue (expenses)			
Intergovernmental	74,157	964,709	1,201 %
Investment income	105,915	56,029	(47) %
Property taxes	17,278	17,751	3 %
Interest expense	(94,259)	(46,132)	(51) %
Noncapital contributions			
Connection fees	17,470	7,261	(58) %
Total nonoperating revenue	120,561	999,618	729 %
Increase (decrease) in net assets	(107,756)	955,152	986 %
Net assets at the beginning of year	2,564,959	2,457,203	(4) %
Net assets at end of year	\$ 2,457,203	\$ 3,412,355	39 %

Flat charges increased by 28% primarily because of board approved increases in the fees charged on a per customer basis during the year.

Intergovernmental revenue increased during the year from \$74,157 to \$964,709 due to the receipt of the above mentioned intergovernmental revenue related to disaster relief.

Investment income decreased this year by 47% due to a lower average cash balance along with a decrease in the rate of return during the year.

Interest expense decreased during the year due to the increase in the amount of interest capitalized in conjunction with construction of the above mentioned wastewater treatment facility.

Connection fees decreased this year by 58% due to a decrease in the number of new customers connecting to the District's system.



## Management's Discussion and Analysis

Year Ended June 30, 2008

## Overview of the Basic Financial Statements (continued)

*Expenses by Function*

Total expenses for the District for fiscal year 2007/08 was \$889,769. Costs associated with the administration of the sanitation system represent 81% of the District's costs. The remaining 19% of expenses consists of \$121,361 of depreciation and amortization, and \$46,132 of interest expense.

## Capital Asset and Debt Administration

*Capital assets*

The District's investment in capital assets as of June 30, 2008, amounts to \$5,036,875 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and construction in progress.

	June 30, 2007	June 30, 2008	Percentage Change
Land	\$ 417,205	\$ 417,205	- %
Buildings	3,661,334	3,661,334	- %
Construction in progress	1,200,531	2,908,451	142 %
Machinery and equipment	41,265	41,265	- %
Accumulated depreciation	(1,871,458)	(1,991,380)	6 %
Total	\$ 3,448,877	\$ 5,036,875	46 %

The Construction in Progress balance is related to the improvements being made to the wastewater facility, which was under construction as of June 30, 2008.

*Long-term debt*

At the end of the current fiscal year, the District had a total of \$2,608,727 in outstanding debt consisting of general obligation bonds issued in 1976 and a note issued in 2005.

	June 30, 2007	June 30, 2008	Percentage Change
General obligation bond	\$ 146,000	\$ 134,000	(8) %
Note payable	2,574,827	2,486,237	(3) %
Less: deferred refunding expenses	(12,949)	(11,510)	(11) %
Total	\$ 2,707,878	\$ 2,608,727	(4) %

**Capital Asset and Debt Administration** (continued)

*Long-term debt* (continued)

The District's total debt decreased \$99,151 during 2007/08, resulting from the annual principal payments on the general obligation bonds totaling \$12,000 and on the note payable totaling \$88,590 (net of deferred refunding expenses in the amount of \$1,439).

Additional information on the District's long-term debt can be found in Note E on pages 21 and 22 of this report.

**Request for Additional Information:**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Attention: Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, California 95403.

## **Basic Financial Statements**

Graton Community Services District

Statement of Net Assets

June 30, 2008

**Assets**

Current assets

Cash and cash equivalents	\$	1,189,639
Accounts and other receivables		83,582

Total current assets		1,273,221
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Noncurrent assets

Capital assets:

Buildings and improvements		3,661,334
Construction in progress		2,908,451
Land		417,205
Machinery and equipment		41,265
Less accumulated depreciation		(1,991,380)

Total capital assets, net		5,036,875
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Total assets	\$	6,310,096
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See accompanying Notes to Basic Financial Statements

Graton Community Services District

Statement of Net Assets (continued)

June 30, 2008

**Liabilities**

Current liabilities

Accounts payable and accrued expenses	\$	286,781
General obligation bonds payable, current portion		12,000
Note payable, current portion		91,499
Accrued interest payable		2,233

Total current liabilities		392,513
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Noncurrent liabilities

General obligation bond payable, net of current portion		122,000
Note payable, net of current portion and deferred refunding expenses in the amount of \$11,510		2,383,228

Total noncurrent liabilities		2,505,228
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Total liabilities		2,897,741
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**Net assets**

Invested in capital assets, net of related debt		2,428,148
Unrestricted		984,207

<b>Total net assets</b>	\$	<b>3,412,355</b>
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Graton Community Services District

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008

<b>Operating revenues</b>	
Flat charges	\$ 787,138
Charges for services	12,033
Total operating revenue	799,171
<b>Operating expenses</b>	
Services and supplies	722,276
Depreciation and amortization	121,361
Total operating expenses	843,637
Operating loss	(44,466)
<b>Nonoperating revenues (expenses)</b>	
Intergovernmental	964,709
Investment income	56,029
Property taxes	17,751
Interest expense	(46,132)
Net nonoperating revenues	992,357
Net income before contributions	947,891
Noncapital contributions - connection fees	7,261
Increase in net assets	955,152
Net assets at beginning of year	2,457,203
Net assets at end of year	\$ 3,412,355

See accompanying Notes to Basic Financial Statements

Graton Community Services District

Statement of Cash Flows

Year Ended June 30, 2008

	Increase (decrease) in cash and cash equivalents
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 789,871
Payments to suppliers	(725,043)
Net cash provided by operating activities	64,828
<b>Cash flows from noncapital financing activities</b>	
Taxes	17,751
Connection fees	7,261
Net cash provided by noncapital financing activities	25,012
<b>Cash flows from capital and related financing activities</b>	
Intergovernmental revenue	923,701
Purchase of capital assets	(1,524,635)
Principal payments on bonds	(12,000)
Principal payments on note payable	(88,590)
Interest paid on capital debt	(130,818)
Net cash used in capital and related financing activities	(832,342)
<b>Cash flows from investing activities</b>	
Interest received on pooled cash and investments	56,029
<b>Net decrease in cash and cash equivalents</b>	(686,473)
<b>Cash and cash equivalents at beginning of year</b>	1,876,112
<b>Cash and cash equivalents at end of year</b>	\$ 1,189,639

See accompanying Notes to Basic Financial Statements

Graton Community Services District

Statement of Cash Flows (continued)

Year Ended June 30, 2008

**Reconciliation of operating income to net cash**

**provided by operating activities:**

Operating loss	\$	(44,466)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		119,922
Amortization of deferred refunding expense		1,439
Change in assets and liabilities:		
Increase in accounts and other receivables		(9,300)
Decrease in other assets		4,399
Decrease in accounts payable and accrued expenses		(7,166)

Net cash provided by operating activities	\$	64,828
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**Noncash investing, capital and financing activities:**

Increase in accounts payable related to capital project costs	\$	98,799
Interest capitalized to construction projects	\$	84,486

See accompanying Notes to Basic Financial Statements



The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

Note A. Defining the Financial Reporting Entity

Note B. Summary of Significant Accounting Policies

Note C. Cash and Investments

Note D. Capital Assets

Note E. Long Term Obligations

Note F. Risk Management

Note G. Recent Governmental Accounting Standards

Note H. Contingencies

**Note A. Defining the Financial Reporting Entity**

Graton Community Services District (the "District") provides sanitation services for the Graton community in Sonoma County, California. Established on July 1, 2004, the District is community owned and operated. All members elected to the Board of Directors are registered voters of the Graton community. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations and treatment plant. The District is governed by an ordinance defining policies, including user fees.

**Note B. Summary of Significant Accounting Policies**

The District conforms to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. A summary of significant accounting policies is included below:

*Government-wide Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) display information on the District as a whole. The District does not have any activities that are considered government-type or fiduciary activities. The statement of net assets presents the financial condition of the business activities of the District at year end.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included in the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Note B. Summary of Significant Accounting Policies (continued)***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

The District has elected under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer. The Sonoma County Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool"), an external investment pool.

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the District has stated certain Treasury Pool investments at fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB No. 3*, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk. In accordance with GASB Statement No. 40, the District has made such disclosure.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

**Note B. Summary of Significant Accounting Policies (continued)***Accounts and Other Receivables*

Accounts receivable consists of uncollected fees for sanitation services and amounts earned but not yet received on grants at June 30, 2008.

Other receivables consist of flat charges at June 30, 2008. These flat charges are established annually by the Board of Directors and billed through the County's property tax system.

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets are segregated into two components: 1) invested in capital assets, net of related debt, and 2) unrestricted. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. Transactions not included in the original budget require approval from the Board of Directors.

**Note B. Summary of Significant Accounting Policies (continued)***Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County of Sonoma (the "County"). The County is responsible for assessing, collecting and distributing property taxes to the District.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allow counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to the County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's annual financial statements.

*Intergovernmental Transactions*

Intergovernmental transactions made during the year relate to the financing of the District's capital improvement projects provided by other governments. Revenue from this funding is recognized when the District has made the related capital expenditure for which the funding is provided.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements of the District include the allowance for uncollectible accounts and the estimated useful life of capital assets.

**Note C. Cash and Investments**

The District follows the practice of pooling cash and investments with the County Treasury Pool. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the District based on the average daily balance of the District during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the District.

**Note C. Cash and Investments (continued)***Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Directors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations
- Joint power agreements

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

*Balance Sheet*

At of June 30, 2008, the District's investments consisted of \$1,189,639 in the Treasury Pool managed by the County Treasurer, which has weighted average maturity of less than two years. The credit rating and other information regarding the Treasury Pool for the fiscal year 2007-08 are disclosed in the County of Sonoma's 2007-2008 Comprehensive Annual Financial Report.

The net increase in the fair value of the District's investments during fiscal year 2007-08 was \$1,878. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year end amounted to \$1,451. The realized gain and loss from securities matured during the current fiscal year are recognized through the net change in the fair value of the investment held in the Treasury Pool.

**Note C. Cash and Investments (continued)***Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Due to the highly liquid nature of the District's investment with the County Treasury Pool, the District's exposure to interest rate risk is deemed by management to be insignificant.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

At June 30, 2008, all of the District's investments are in the Treasury Pool, an external investment pool, and are therefore not exposed to custodial credit risk.

*Concentration of Credit Risk*

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no non-pooled investments in any one issuer that represent 5% or more of total District's investments.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating and other information regarding the Treasury pool for the fiscal year 2007-08 are disclosed in the County of Sonoma's 2007-2008 Comprehensive Annual Financial Report.



## Notes to Basic Financial Statements

Year Ended June 30, 2008

**Note D. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance July 1, 2007	Additions	Retirements	Ending Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 417,205	\$ -	\$ -	\$ 417,205
Construction in progress	1,200,531	1,707,920	-	2,908,451
Total capital assets not being depreciated	1,617,736	1,707,920	-	3,325,656
Capital assets being depreciated:				
Buildings and improvements	3,661,334	-	-	3,661,334
Machinery and equipment	41,265	-	-	41,265
Total capital assets being depreciated	3,702,599	-	-	3,702,599
Less accumulated depreciation for:				
Buildings and improvements	(1,856,875)	(116,474)	-	(1,973,349)
Machinery and equipment	(14,583)	(3,448)	-	(18,031)
Total accumulated depreciation	(1,871,458)	(119,922)	-	(1,991,380)
Total capital assets being depreciated, net	1,831,141	(119,922)	-	1,711,219
Total capital assets, net	\$ 3,448,877	\$ 1,587,998	\$ -	\$ 5,036,875

Depreciation expense amounted to \$119,922 for the year ended June 30, 2008.

The total amount of interest capitalized in connection with the wastewater treatment facility construction project during the year ended June 30, 2008 amounted to \$84,486.



## Notes to Basic Financial Statements

Year Ended June 30, 2008

**Note E. Long Term Obligations***General Obligation Bonds*

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$350,000. No new general obligation bonds were issued during the current fiscal year.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding at June 30, 2008 are \$134,000 with an interest rate of 5%. The general obligation bonds mature in September 2016.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2009	\$ 12,000	\$ 6,400
2010	13,000	5,775
2011	14,000	5,100
2012	14,000	4,400
2013	15,000	3,675
Thereafter	66,000	6,700
<b>Total</b>	<b>\$ 134,000</b>	<b>\$ 32,050</b>

*Note Payable*

On December 30, 2005, the District entered into a loan agreement with a financial institution for the purpose of refinancing the District's share in the outstanding Sonoma County Water & Wastewater Financing Authority Revenue Bonds of 1995 and the financing of wastewater system improvement projects. The loan bears an interest rate of 4.85% and matures on December 30, 2025.

The following schedule presents the future minimum payments on long-term debt:

Year ending June 30,	Principal	Interest
2009	\$ 92,938	\$ 119,469
2010	97,501	114,907
2011	102,287	110,121
2012	107,308	105,100
2013	112,575	99,832
2014 – 2018	651,396	410,641
2019 – 2023	827,761	234,276
2024 – 2026	494,471	36,547
<b>Total</b>	<b>\$ 2,486,237</b>	<b>\$ 1,230,893</b>

## Notes to Basic Financial Statements

Year Ended June 30, 2008

**Note E. Long Term Obligations (continued)***Changes in Long-Term Obligations*

Long-term obligation activity for the year ended June 30, 2008 was as follows:

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Bonds and note payable:					
General obligation bonds	\$ 146,000	\$ -	\$ (12,000)	\$ 134,000	\$ 12,000
Note payable	2,574,827	-	(88,590)	2,486,237	92,938
Deferred refunding expenses	(12,949)	-	1,439	(11,510)	(1,439)
Total long-term obligations	\$ 2,707,878	\$ -	\$ (99,151)	\$ 2,608,727	\$ 103,499

**Note F. Risk Management**

The District is covered under an insurance policy from the Special District Risk Management Authority for general liability, auto liability, public employee's performance/dishonesty and property insurance.

**Note G. Recent Governmental Accounting Standards**

The GASB has released the following new standards:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* issued in June 2007. This Statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies arising from GASB Statement No. 34, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. GASB No. 51 is effective for financial statements for years beginning after June 15, 2009.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in December of 2006. This Statement establishes the circumstances under which a governmental entity is required to report a liability related to pollution remediation. GASB No. 49 will be effective for financial statements for periods beginning after December 15, 2007.

The impact on the financial statements of the District of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

**Note H. Contingencies**

The District was the subject of a Cease and Desist Order that was issued in November 2008 by the North Coast Regional Water Quality Control Board (the "Board"). Until the District resolves the issues with the Board, which include minor effluent exceedances and the completion of its capital improvement project which consists of upgrading to a tertiary level treatment system, the District is subject to potential fines. The order from the Board reinforces the District's policy of tying additional provision of services to capacity to treat and store wastewater properly. For fiscal year 2008-2009, the District has budgeted \$80,000 in the General Operations account to cover potential fines.

The District is currently involved in a dispute with the Sonoma County Water Agency (the "SCWA") over the District's one-time use of a pipeline, for which the SCWA has demanded a \$25,000 payment. District management estimates that the District will pay nothing as a result of the dispute and no liability has been recognized by the District as a result of the dispute.